

VONAGE HOLDINGS CORP
Form 10-Q
November 04, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2011

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

Commission File Number 001-32887

VONAGE HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Edgar Filing: VONAGE HOLDINGS CORP - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

11-3547680
(IRS Employer
Identification No.)

23 Main Street,

Holmdel, NJ
(Address of principal executive offices)

07733
(Zip Code)

Registrant's telephone number, including area code: (732) 528-2600

(Former name, former address and former fiscal year, if changed since last report): Not Applicable

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2011
Common Stock, par value \$0.001	225,557,501 shares

Table of Contents

VONAGE HOLDINGS CORP.

INDEX

Part I. Financial Information

	Page
Item 1. <u>Financial Statements</u>	
A) <u>Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010</u>	3
B) <u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010</u>	4
C) <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010</u>	5
D) <u>Unaudited Consolidated Statement of Stockholders' Deficit for the Nine Months Ended September 30, 2011</u>	6
E) <u>Notes to Unaudited Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37

Part II. Other Information

Item 1. <u>Legal Proceedings</u>	39
Item 1A. <u>Risk Factors</u>	39
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 3. <u>Defaults Upon Senior Securities</u>	39
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	40
<u>Signature</u>	41

Financial Information Presentation

For the financial information discussed in this Quarterly Report on Form 10-Q, other than per share and per line amounts, dollar amounts are presented in thousands, except where noted.

Table of Contents**Part I Financial Information****Item 1. Financial Statements****VONAGE HOLDINGS CORP.****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)**

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,590	\$ 78,934
Accounts receivable, net of allowance of \$667 and \$588, respectively	17,747	15,207
Inventory, net of allowance of \$253 and \$763, respectively	7,161	6,143
Deferred customer acquisition costs, current	4,988	6,481
Prepaid expenses and other current assets	18,242	17,231
Total current assets	103,728	123,996
Property and equipment, net	69,970	79,050
Software, net	42,374	35,516
Deferred customer acquisition costs, non-current	786	1,093
Debt related costs, net	2,404	5,372
Restricted cash	6,930	7,978
Intangible assets, net	3,328	4,186
Other assets	3,035	3,201
Total assets	\$ 232,555	\$ 260,392
Liabilities and Stockholders Deficit		
Liabilities		
Current liabilities:		
Accounts payable	\$ 48,162	\$ 37,128
Accrued expenses	85,893	89,407
Deferred revenue, current portion	40,891	43,397
Current maturities of capital lease obligations	2,019	1,783
Indebtedness under revolving credit facility	15,000	0
Current portion of notes payables	28,333	20,000
Total current liabilities	220,298	191,715
Notes payable, net of discount and current maturities	49,583	173,004
Deferred revenue, net of current portion	1,308	1,784
Capital lease obligations, net of current maturities	16,126	17,665
Other liabilities, net of current portion in accrued expenses	0	5,871
Total liabilities	287,315	390,039

Commitments and Contingencies**Stockholders' Deficit**

Common stock, par value \$0.001 per share; 596,950 shares authorized at September 30, 2011 and December 31, 2010; 227,788 and 223,454 shares issued at September 30, 2011 and December 31, 2010, respectively; 225,517 and 221,566 shares outstanding at September 30, 2011 and December 31, 2010, respectively	228	223
Additional paid-in capital	1,070,628	1,053,805
Accumulated deficit	(1,113,003)	(1,171,901)
Treasury stock, at cost, 2,271 shares at September 30, 2011 and 1,888 shares at December 31, 2010	(14,526)	(13,139)
Accumulated other comprehensive income	1,913	1,365
 Total stockholders' deficit	 (54,760)	 (129,647)
 Total liabilities and stockholders' deficit	 \$ 232,555	 \$ 260,392

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**VONAGE HOLDINGS CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Revenues:				
Telephony services	\$ 215,824	\$ 212,135	\$ 651,342	\$ 658,366
Customer equipment and shipping	683	1,991	3,291	9,052
	216,507	214,126	654,633	667,418
Operating Expenses:				
Direct cost of telephony services (excluding depreciation and amortization of \$3,864, \$4,357, \$11,855 and \$14,297, respectively)	59,230	60,263	177,302	185,727
Direct cost of goods sold	10,711	13,214	31,631	43,914
Selling, general and administrative	59,451	58,908	176,175	180,463
Marketing	51,044	49,254	152,659	147,818
Depreciation and amortization	8,683	12,649	28,413	40,346
	189,119	194,288	566,180	598,268
Income from operations	27,388	19,838	88,453	69,150
Other Income (Expense):				
Interest income	33	154	112	380
Interest expense	(2,926)	(11,569)	(15,116)	(37,203)
Change in fair value of embedded features within notes payable and stock warrant	0	(62,150)	(950)	(69,556)
Loss on extinguishment of notes	(7,985)	(1,545)	(11,806)	(4,492)
Other income (expense), net	(47)	(19)	(5)	41
	(10,925)	(75,129)	(27,765)	(110,830)
Income (loss) before income tax expense	16,463	(55,291)	60,688	(41,680)
Income tax expense	(426)	(91)	(1,790)	(296)
Net income (loss)	\$ 16,037	\$ (55,382)	\$ 58,898	\$ (41,976)
Net income (loss) per common share:				
Basic	\$ 0.07	\$ (0.26)	\$ 0.26	\$ (0.20)
Diluted	\$ 0.07	\$ (0.26)	\$ 0.24	\$ (0.20)
Weighted-average common shares outstanding:				
Basic	225,281	212,086	223,903	208,278
Diluted	241,189	212,086	242,295	208,278

Edgar Filing: VONAGE HOLDINGS CORP - Form 10-Q

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

VONAGE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 58,898	\$ (41,976)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization and impairment charges	27,555	